

Connecticut Tax News

quarterly

Volume 13, Issue 3
July/August 2001

SPECIAL ISSUE: LEGISLATIVE SUMMARY

A PUBLICATION OF THE CONNECTICUT DEPARTMENT OF REVENUE SERVICES

From The Commissioner Gene Gavin

Busy Summer at DRS Despite Few Tax Changes

In July, Governor John G. Rowland signed into law the state spending and tax packages and other legislation that was approved by the General Assembly during its 2001 June Special Session. This



legislation, which includes the biennial budget for 2002 and 2003, held the line on most taxes in Connecticut and included

minor changes to tax policies. Thus, this year there are very few legislative tax changes to report to you and many taxpayers will find that they are not affected at all.

In this special edition of the DRS Tax News, we are providing you with a brief overview of the new laws and policies that changed. I would also like to let you know that although there have been few new tax law changes for DRS to implement, there is still a great deal of important work taking place at DRS this summer.

Two initiatives that have been ongoing for much of the year will soon be complete: Connecticut *Fast-File*, which was recently introduced, allows



► COMMISSIONER, page 2

One-Week Sales and Use Tax Exclusion in August

DRS would like to remind Connecticut taxpayers of the annual one-week sales and use tax exclusion in August for clothing and footwear under \$300.

Sales and use taxes do not apply to purchases and sales of clothing and footwear costing less than \$300 during the one-week period that begins on the third Sunday in August and ends the following Saturday ("exclusion week"). **This year, the exclusion week begins Sunday, August 19, and extends through Saturday, August 25.**

Rules for one-week exclusion. For the exclusion week from August 19, 2001, through August 25, 2001, for items costing less than \$300, retailers should remember these rules:

- The exclusion applies to each item no matter how many items are sold on the same invoice to a customer. However, the exclusion does not apply to any portion of the price of an item that costs \$300 or more. Items normally sold as a unit (such as pairs of shoes or suits) cannot be separated and sold as individual items to qualify for the exclusion.
- Cash discounts and coupons of all kinds may be deducted from the original price of an item, and if the reduced price is less than \$300, the item will not be taxable. Rebate amounts, however, may not be deducted from the sales price.
- The addition of shipping and handling charges to an item costing

► Clothing & Footwear, Page 2

2001 Legislative Changes Affecting Sales and Use Taxes

The following is a summary of the 2001 legislation affecting sales and use taxes. The effective dates of these legislative changes are also included in the summary. For more information on recently enacted legislation, visit the General Assembly Web site at: www.cga.state.ct.us.

Effective July 1, 2001

- Excludes from the tax on parking services, the sale of parking space in a railroad parking facility owned or operated by the state in a municipality located within a severe nonattainment area for ozone under federal law, *retroactive* to such sales on or after April 1, 2000. (An identical exclusion for municipally-operated facilities already exists.)
- Temporarily suspends the 5.75% tax imposed on patient care services from July 1, 2001, through June 30, 2003.
- Exempts sales and use taxes on materials, tools, fuel, machinery, and equipment sold to and used or consumed by a fuel cell manufacturing facility in Connecticut. A "fuel cell" is defined as a device that directly or indirectly produces electricity directly from hydrogen or hydrocarbon fuel through a noncombustive electrochemical process.
- Extends sunset of the following three exemptions from January 1, 2002, to July 1, 2002:
 1. New motor vehicles powered by clean alternative fuel (natural gas or electricity, and propane in certain vehicles);

► Sales and Use Taxes, Page 3

The Mission of the Connecticut Department of Revenue Services is to administer the tax laws of the State of Connecticut and collect the tax revenues in the most cost effective manner; achieve the highest level of voluntary compliance through accurate, efficient and courteous customer services; and perform in a manner which instills public confidence in the integrity and fairness of the State's tax programs.

Commissioner
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businesses to streamline their reporting and paying of taxes through new electronic filing methods; and in September, DRS will host the annual conference of the North Eastern States Tax Officials Association (NESTOA).

Fast-File allows businesses to file tax returns and make payments of certain business taxes by telephone or via the Internet. I believe that these new ways to file and pay will significantly streamline the tax-reporting process. I am hopeful that this new filing program will become widely accepted and used by the business community.

On July 11, 2001, businesses who collect and report sales and use taxes, business use tax, room occupancy tax, and income tax withholding from employees began successfully filing their returns and payments electronically to DRS. The new methods of filing are

especially fast for taxpayers, whether they do or do not have any tax due, but are required to file. Taxpayers who collected taxes to be remitted initiate the payments directly from a bank account through direct payment or electronic funds transfer. The tax return can be filed at any time up to the due date, and the payment (if any) authorized to transfer on the due date.

The *Fast-File* Program offers 24-hour filing, seven days a week, and provides filers with an immediate confirmation that their return is filed. It is more accurate than paper filing methods, because the computer catches most math errors immediately and provides the filer the opportunity to correct them.

Fast-File is a win-win program for Connecticut. It saves business taxpayers time, increases accuracy of their returns and payments, and streamlines DRS handling of information and payments. All of these help reduce the cost of tax administration for the taxpayers of Connecticut.

The NESTOA 2001 Annual Conference will be held September 23 through 26, at The Water's Edge Resort in Westbrook, Connecticut. As the 2001 President of NESTOA, it is a great privilege for me to serve as host of the annual meeting of the region's tax officials.

Governor Rowland will "kick-off" the conference by welcoming participants on Monday. Well recognized speakers from around the country and workshops are scheduled throughout the conference covering various tax related topics.

I look forward to a great event and the chance to show off our wonderful state. I urge practitioners and interested taxpayers to attend. For more information about the 2001 NESTOA conference contact:

- Cindy Torelli 860-541-7562
- Joe Thomas 860-541-4501
- Visit: www.nestoa2001.com

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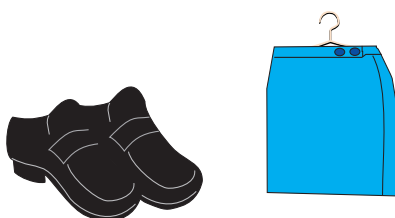
Clothing & Footwear
from page 1

less than \$300 will **not** render the item taxable, even if the shipping and handling charges bring the total price to \$300 or more.

- Items put on layaway during the exclusion week will not be taxable, regardless of when they are picked up, as long as the total cost of the items, including all special layaway charges, will be less than \$300. Items put on layaway before or after the exclusion week are taxable, even if they are picked up during the exclusion week, unless they cost less than \$75.
- Mail order, telephone, and Internet sales also qualify for the exclusion, as long as the order is accepted during the exclusion week and the customer expects immediate shipment.



- Clothing and footwear rentals qualify for the exclusion if the customer takes possession of the items during the exclusion week, even if they are returned after the exclusion week. Rented items picked up before the exclusion week and returned during that week are taxable, unless they cost less than \$75.
- A customer may exchange an item purchased during the exclusion week for less than \$300 for a like item (such as a shirt for a shirt) of a different style, size or color, and the new item will be nontaxable, as long as it, too, costs less than \$300. Such exchanges may be made after the exclusion week. If the new item costs \$300 or more, the customer may not use the refund or credit from the returned item to reduce the price of the new item.



This and other information about the one-week exclusion for clothing or footwear (including rules for monogramming, alterations, rain checks, and custom-made items) are described in more detail in **SN 2000(8)**, *One-Week Sales and Use Tax Exclusion in August for Clothing and Footwear Under \$300*, which is available on the DRS Web site.

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**Save This Date for DRS/
IPT Tax Seminar**

DRS and the Institute of Professionals in Taxation (IPT) will present their fourth annual Connecticut tax seminar on November 8, 2001.

Further details about registration and the seminar will be available in the September issue of *Tax News*.

Please mark your calendar so you won't miss it!

DRS speakers will explain the latest legislative tax changes, audit programs, *Fast-File*, tax credits, sales tax, and other taxes.

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SALES AND USE TAXES, CONTINUED FROM PAGE 1

2. Conversion equipment for converting vehicles to the use of clean alternative fuel, or to dual use of clean alternative fuel and any other fuel; and
 3. Equipment incorporated into or used in a compressed natural gas filling station or electric recharging station for vehicles powered by clean alternative fuel.
- Increases the time from 30 days to 90 days after commencement of the contract for a person dealing with a nonresident contractor to obtain a bond certificate from DRS, or to deduct and pay over to the DRS 5% of the amount payable to such contractor (or 2% in the case of direct payment permit holders). If the contract is to be completed in less than 90 days, the time limit is no later than 45 days after the commencement of the contract.
 - Expands last year's amendment to the funeral expense exemption, which exempted "caskets for burial," to include caskets for cremation. Both casket exemptions take effect this year at the same time.

Effective October 1, 2001

- Changes reference to services rendered by "a hypertrichologist" to services rendered by "an electrologist" licensed pursuant to Chapter 388 in the *exclusions* from taxable miscellaneous personal services.
- Adds federally-recognized Indian tribes to the list of business entities eligible for exemption from sales and use taxes on enumerated services provided between such tribes and business entities in which they own a controlling interest, as defined in this statute, and between affiliated entities in which the tribe owns a controlling interest.

Effective August 1, 2002

- In accordance with federal law (P.L. 106-274, 4 U.S.C. §§116-126), this law changes the Connecticut sourcing rules for cellular mobile telephone service.
 1. All charges for cellular telephone service will be subject to Connecticut sales and use taxes if the service is billed by or for a customer's "home service provider," if the street address where the customer's cellular telephone usage primarily occurs ("place of primary use") is in Connecticut, regardless of where calls originate, terminate or pass through.
 2. The "home service provider" is the company that contracts with the customer to provide the cellular telephone service. The home service provider is responsible for obtaining and maintaining a record of each customer's place of primary use. It may use any address it has for the customer as of July 28, 2002, unless the Commissioner of Revenue Services notifies it of a different address.

3. The Commissioner may make determinations as to customers' places of primary use and may provide home service providers with electronic databases of customer places of primary use.
4. The bill provides for certain appeal rights by customers to the home service provider and the Commissioner in the case of a claim of an erroneous assignment of a place of primary use.
5. The current sourcing rules for cellular service in Conn. Gen. Stat. §12-407a(b) apply prior to August 2, 2002, and if the federal law on which the new changes to these sourcing rules are based is substantially limited or impaired by the final judgment of a court, the original sourcing rules of §12-407a(b) will apply to services rendered on or after the date of entry of such judgment.

Effective for customer bills issued after August 1, 2002 (the first day of the month beginning more than two years after the July 28, 2000, enactment of the federal law).

T_N**Previously Enacted Legislative Changes Effective July 1, 2001:**

The following legislative changes to Connecticut tax law were enacted in prior legislative sessions and take effect July 1, 2001:

Purchases and sales of the following goods and services made on or after July 1, 2001, are **exempt** from Connecticut sales and use taxes:

- Closed circuit TV equipment for the visually impaired, canes, and support hose designed to aid in blood circulation purchased by those with medical needs for such hose;
- Caskets used for burial;
- Smoking cessation products, including specially formulated gum, inhalants, or similar products designed to aid in smoking cessation;
- Sales to telecommunications or community antenna television companies of equipment for telecommunications, high-speed data transmission, or broadband Internet service; and
- Internet access services. (NOTE: All other computer and data processing services will be taxable at 1% from July 1, 2001, until July 1, 2002.)

REMINDER: The tax on paving, painting or staining, wallpapering, roofing, siding, and exterior sheet metal work to other than industrial, commercial or income-producing real property under Conn. Gen. Stat. §12-407(2)(i)(BB) has been phased out. On and after July 1, 2001, the services are exempt from tax.

T_N**TRANSITIONAL RULES FOR SALES AND USE TAXES**

Charges for services being reduced because of a phaseout of the tax are subject to tax at the higher rate only on the portion of the charges for services provided before the date of the rate reduction. The portion of the charges for services provided on or after the date of the rate reduction is subject to tax at the reduced rate.

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For Tax Forms, Publications or Personal Assistance

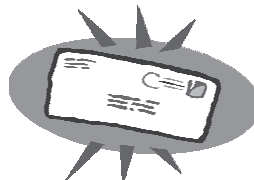
- Visit the DRS Web site: www.drs.state.ct.us



- Call CONN-TAX at 1-800-382-9463 (in-state) or 1-860-297-5962 (anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries 24 hours a day, seven days a week, by calling 860-297-4911.

- Write to: Department of Revenue Services
Taxpayer Services Division
25 Sigourney Street
Hartford CT 06106-5032

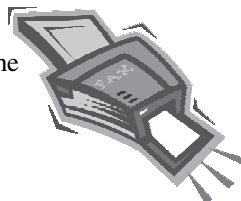


Forms and publications may be obtained 24 hours a day, seven days a week, by using any of the following resources.



Internet: Preview and download forms from the DRS Web site at www.drs.state.ct.us

DRS TaxFax: Call 860-297-5698 from the handset attached to your fax machine



E-mail: E-mail your request for forms to:
ctforms.drs@po.state.ct.us

Telephone: From a touch-tone phone 24 hours a day call 1-800-382-9463 (in-state) and select Option 2 or 860-297-4753 (DRS Forms Unit).



For free assistance on forms, visit our offices from 8:00 a.m. to 5:00 p.m. (Monday through Friday). For pre-recorded directions to DRS offices, call CONN-TAX. If you require special accommodations, please advise DRS.

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203-579-6251

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CONNECTICUT TAX NEWS,

from the Connecticut Department of Revenue Services, is published five times a year.

This newsletter is designed to provide general information to taxpayers and tax practitioners. It is not designed to explain in depth a current DRS policy affecting the liability of taxpayers. Nothing in this publication supersedes, alters, or otherwise changes the provisions of the Connecticut General Statutes, regulations, DRS rulings or tax information publications.

Gene Gavin, Commissioner

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